

UNDERSTANDING TARGET GOP





Objectives

- What is Incremental Conversion
- What is Target GOP
- How to Review Target GOP
- Final Comments

Group Exercise

What does Target GOP mean to you?

- A) Something the FC prepares but doesn't really understand.
- B) Yet another Head Office measure we're forced to report.
- C) A tool for reviewing business performance.
- D) A small tropical plant commonly found in Brazil.



Key Strategic Priority

“Maximize the performance of our portfolio through a renewed focus on revenue and operating margins.”

Strong Target GOP = Strong Operating Margins



Looks can be deceiving

Why incremental conversion can be misleading:

Incremental conversion is a very simplified look at how movements in total revenue flow through to GOP. For example:

	<u>Revenue Vs. LY</u>	<u>GOP Vs. LY</u>	<u>Incremental Conversion</u>
Hotel A	\$10.0m	\$6.5m	65%
Hotel B	(\$5.0m)	(\$3.8m)	24%
Hotel C	(\$1K)	(\$5K)	(400%)



What is Target GOP?

- Target GOP measures our ability to convert additional revenue into profit or make savings when revenue falls.

- When we look at Target GOP we compare:
 - Actual performance vs. Last Year; and
 - Actual performance vs. Plan

- The Target GOP calculation breaks down the revenue increase or decrease into:
 - Average Rate
 - Occupancy
 - F&B/ Other



What is Target GOP?

- The calculation then applies conversion ratios to each of the revenue movements to calculate the targeted amount of growth or decline in GOP.
- The conversion ratios for the different revenue movements are:
 - Average Rate **90%**
 - Occupancy **70%**
 - F&B/ Other **50%**
- This investigation is not only to understand what has changed in your cost base but to try and identify actions to reduce the impact.



Why Target GOP?

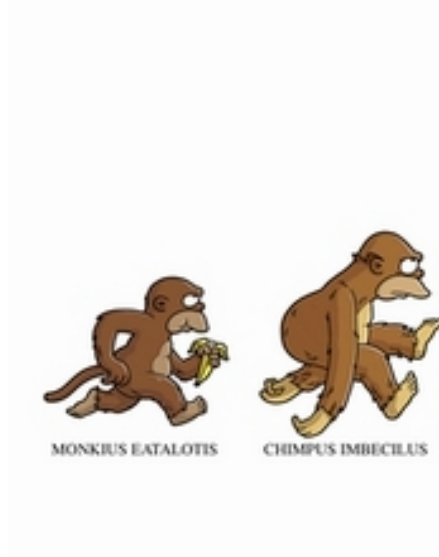
- Target GOP is another step in the evolution of cost management...

The evolution of cost management



GOP \$

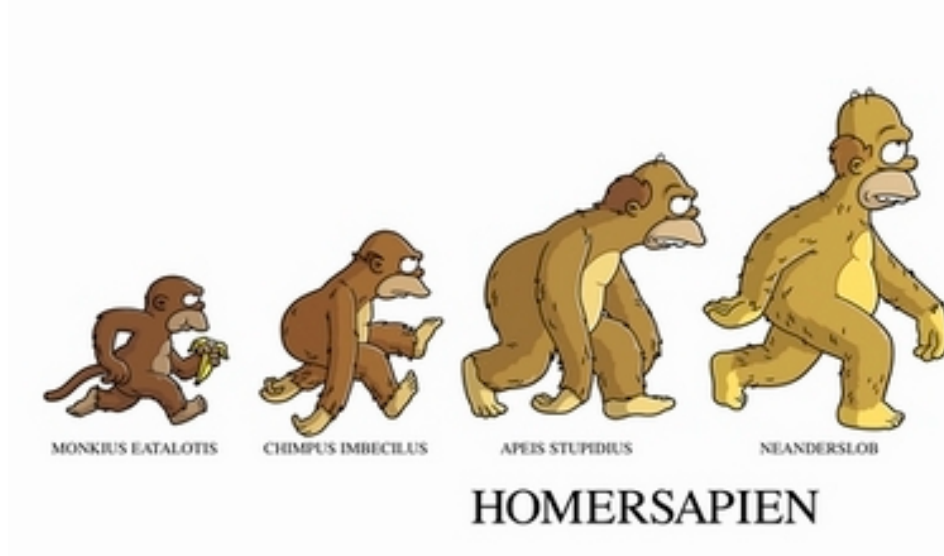
The evolution of cost management



GOP \$

GOP %

The evolution of cost management

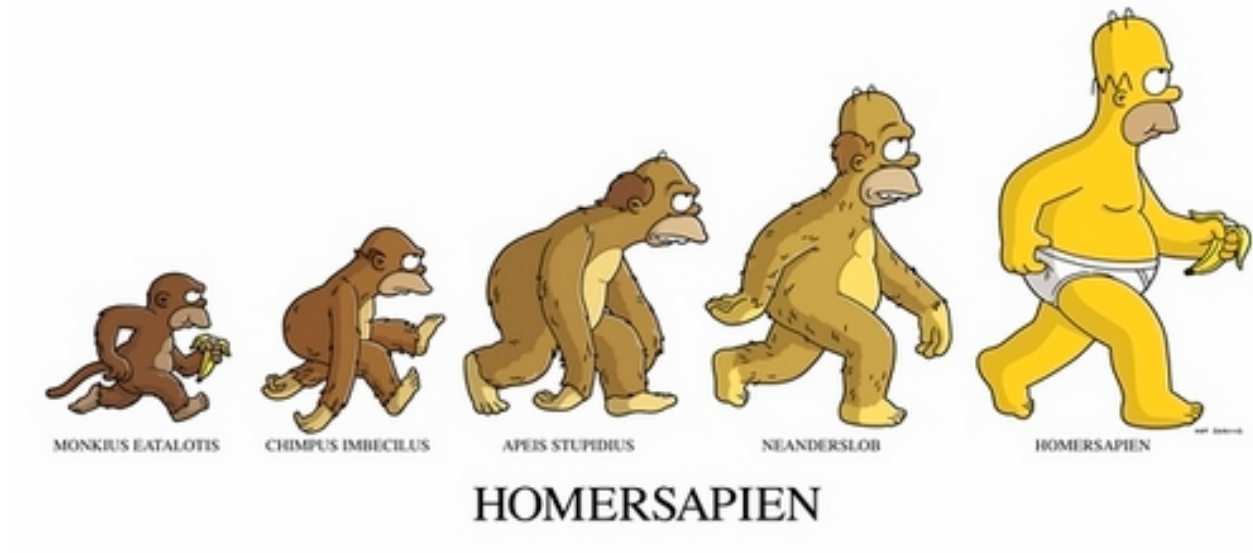


GOP \$

GOP %

**Incremental
Conversion%**

The evolution of cost management



GOP \$

GOP %

**Incremental
Conversion%**

Target GOP



Question

Based on the following GOP information which hotel needs further investigation into their cost base?

HOTEL A	HOTEL B	HOTEL C	HOTEL D
GOP \$	GOP%	Incremental Conversion	Target GOP
+\$543K	+0.5%	64%	(\$120K)



Why Target GOP?

- It's a performance tool that highlights changes to your hotels cost base.
- There is no right or wrong answer with Target GOP. A negative result requires further investigation to understand the drivers.
- What is more important are actions that result from your investigation.
- Target GOP can be used to review current performance and to sense check forecasted performance.



Target GOP vs. Last Year

Region	YTD April
Middle East	(\$262K)
Arab Pen & IO	\$796K
Africa	(\$646K)
Total	(\$111K)

Full Year Forecast
(\$2,943K)
(\$1,554K)
(\$2,954K)
(\$7,451K)



How to Review Target GOP

- **Step 1** : Prepare your Target GOP calculation and review the result.



Step 1: Prepare Target GOP Calc

	2008	2007	Variance	Target Conversion	Target GOP Movement	GOP Conversion
Rooms Revenue	5,052	4,734	319			
Total Food, Beverages, Sundry	3,954	3,849	105			
Total Other	878	790	88			
Total Revenue	9,884	9,373	511			
Total Occupied Rooms	17,000	17,453	(453)			
Available Rooms	19,620	19,175	445			
Occupancy	87%	91%	(4%)			
Average Rate	297.2	271.2	26.0			
Movement due to Average Rate			441	90%	397	
Movement due to Volume			(123)	70%	(86)	
Movement due to F&B & Other Revenue			192	50%	96	
Incremental growth			511		407	79.8%
Actual GOP Variance	5,906	5,687			219	(57.1%)
Surplus / (Shortfall)					(188)	(136.9%)



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In this example we are showing a negative Target GOP versus Last Year of US\$188K. This requires further investigation.



How to Review Target GOP

- **Step 1** : Prepare your Target GOP calculation and review the result.
- **Step 2** : Review your summary P&L to help identify areas of concern. Look at the departmental profits and overheads to see if there are any significant negative movements.

Step 2: Review Summary P&L



	Actual	v Plan	v LY
Rooms Revenue	5,052	981	319
F&B Revenue	3,954	(136)	105
Other Income	878	(100)	88
Total Revenue	9,884	745	511
Rooms Dept. Profit	4,531	1,042	286
F&B Dept. Profit	1,852	(57)	(44)
Other Income Dept. Profit	619	(73)	66
Total Op. Profit	7,002	913	308
Hotel Administration	(483)	(23)	(43)
Information Systems	(43)	5	(5)
Sales & Marketing	(118)	21	(0)
POMEK	(382)	(4)	(34)
Human Resources	(71)	16	(7)
Total Undistributed Op. Exps	(1,096)	15	(89)
IBFC (GOP)	5,906	928	219
Occupancy	86.6%	(0.5%)	(4.4%)
Rate	297.2	59.2	26.0
Revpar	257.5	50.0	10.6
Rooms DP%	89.7%	4.0%	0.0%
F&B DP%	46.8%	0.2%	(2.4%)
GOP%	59.8%	5.3%	(0.9%)

Our focus is on the actual variances to LY as we are investigating Target GOP vs. LY.

What Areas would we want to examine in more detail?

F&B departmental profit has dropped by over 2 percentage points.

Rooms DP% is in line with LY but we have dropped in occupancy and grown average rate by \$26. Are there additional costs offsetting the benefit from the shift?

What are causing the variances in Hotel Admin and POMEK?

Note: this P&L format is for illustrative purposes.



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- **Step 3** : For large negative movements in departmental profits or overheads you will need to review the P&L for that department to identify any large changes to individual cost items.

Step 3: Review Dept. P&L's



Food & Beverage	Actual	vs Plan	vs LY
Food	2,293	(79)	61
Beverage	1,582	(54)	42
Sundry	79	(3)	2
TOTAL REVENUE	3,954	(136)	105
Cost of Food	857	29	(32)
Cost of Beverage	505	2	(45)
Cost Others	1	0	0
Total Cost of Sales	1,363	31	(77)
Salaries & Wages	290	10	(15)
Employee Benefits	116	4	(6)
Total Payroll Expenses	406	14	(21)
Miscellaneous	20	3	(4)
Gratis Food	10	2	(2)
Entertainment	10	3	(2)
Professional Musicians	39	2	(8)
Operating Equipment	42	(1)	(7)
Uniforms	15	2	(2)
Laundry	29	2	(6)
Operating Supplies	25	6	(1)
Office Supplies	14	1	(3)
Guest Supplies	9	0	(2)
Training	15	4	(9)
Telephone	5	0	0
Team Member Relations	100	10	(4)
Total Other Expenses	333	33	(51)
DIVISION INCOME (LOSS)	1,852	(57)	(44)
KPI's			
Food Covers	126,545	(11,791)	7,383
Ave Food Check	18.1	1.0	(0.6)
COS Food %	37.4%	(0.0%)	(0.4%)
COS Beverage %	31.9%	(0.9%)	(2.1%)

The revenue increases over last year are almost entirely offset by the cost of sales increases.

Increases in both payroll and other expenses. Majority were planned for but some may need to reduce to help protect margins.

Average check declining while costs of sale are increasing.



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- **Step 4** : Determine the drivers for the cost increases and actions to lessen the impact.



Step 4 : Determine Drivers & Actions

DEPARTMENT	IMPACT to IBFC	COMMENTS
<u>Rooms</u>		
TA Commissions	\$35K	Change in business mix. Review what is driving change in strategy.
Team Member Housing	\$15K	Budgeted increase as per agreed with Owing Co.
Guest Supplies	\$20K	Review in light of occupancy drop.
<u>F&B</u>		
Food cost increases of 4%	\$10K	Revise menu prices to cover cost inflation.
Beverage cost increases 10%	\$33K	Revise menu prices to cover cost inflation.
Team Member Housing	\$40K	Budgeted increase as per agreed with Owing Co.
<u>Overheads</u>		
Bad debt Provision	\$15K	Write-off of Travel Agent receivable (Dodgy Tours UK Ltd).
POMEC	\$20K	20% increase in energy costs.
TOTAL	\$188K	



Final Comments

- Target GOP is a performance tool to help identify area's of concern in the Profit & Loss statement.
- The resulting actions are the most important part of the process.
- Focusing on Target GOP will help drive Operating EBITDA which will help drive your bank account!



GROUP EXERCISE

